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TOHAK 70

NOVEMBER 21, 1974

MEMORANDUM FOR SECRETARY KISSINGER

FROM: THE SITUATION ROOM

SUBJECT: INFORMATION ITEMS

~~INTERNATIONAL OIL DEVELOPMENTS~~ THE NEW PRICE MECHANISM ADOPTED BY SAUDI ARABIA, THE UNITED ARAB EMIRATES, AND QATAR TWO WEEKS AGO HAS LEFT AT LEAST ONE KEY ISSUE UNRESOLVED. ABU DHABI CONTENDS THAT ALL THREE COUNTRIES AGREED TO SELL THEIR GOVERNMENT-OWNED OIL FOR 94.8 PERCENT OF THE NEW POSTED PRICE, BUT SAUDI OIL MINISTER YAMANI IS QUOTED AS SAYING THAT AT LEAST PART OF HIS GOVERNMENT'S SALES WILL BE MADE AT OR BELOW 93 PERCENT OF THE NEW POSTING. SAUDI ARABIA SEEMS TO BE CHARGING 94.8 PERCENT OF THE POSTED PRICE FOR DIRECT SALES TO THIRD PARTIES. THE YAMANI SCHEME WILL RAISE GOVERNMENT REVENUES PER BARREL OR CONSUMERS' OIL COSTS. UNDER THE NEW FORMULA, AN INCREASE CAN BE AVOIDED ONLY IF SAUDI ARABIA SELLS ALL GOVERNMENT-OWNED OIL AT 88 PERCENT OR LESS OF THE POSTED PRICES. SUCH A PRICE WOULD BE BELOW THE NEW COST OF EQUITY OIL. IN THIS SITUATION, THE COMPANIES WOULD RESIST LIFTING THEIR EQUITY SHARE OF PRODUCTION AND THE ENTIRE SYSTEM WOULD COME APART.

ACCORDING TO PRESS REPORTS, THE SAUDIS ARE CONSIDERING OFFERING 2 MILLION TO 3 MILLION B/D OF PARTICIPATION OIL FOR DIRECT SALE AT NO MORE THAN 93 PERCENT OF THE POSTED PRICES. WHILE THESE REPORTS ARE REMINISCENT OF THOSE LAST SUMMER CONCERNING SAUDI PLANS FOR AN OIL AUCTION, SOME TYPE OF ACTION TO LESSEN THE IMPACT OF THE RECENT PRICE MOVE CANNOT BE RULED OUT. THE SUPPLY-DEMAND PICTURE FOR OIL HAS CHANGED LITTLE IN RECENT WEEKS. OIL DEMAND IN THE MAJOR CONSUMING COUNTRIES IS CONTINUING TO RUN SLIGHTLY BELOW LAST YEAR'S LEVELS, AND OIL STOCKS REMAIN AT OR ABOVE LAST YEAR'S LEVELS.

THE MAJOR WEST EUROPEAN COUNTRIES ARE REACTING FAVORABLY TO YOUR CALL FOR OIL CONSERVATION MEASURES TO REDUCE DEPENDENCE ON FOREIGN SOURCES FOR OIL. WEST GERMAN FOREIGN MINISTER GENSCHER

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ENDORSED THE U.S. PROPOSALS, AND BRITISH REACTION ALSO HAS BEEN FAVORABLE. THE FRENCH APPROVE OF THOSE PARTS OF YOUR PROPOSAL DEALING WITH CONSERVATION, BUT STILL WOULD LIKE TO SEE A CONFERENCE OF OIL PRODUCERS, OIL CONSUMERS, AND DEVELOPING COUNTRIES.

~~STATUS OF PORTUGUESE PRIME MINISTER~~ PRIME MINISTER GONCALVES RETURNED TO LISBON YESTERDAY FROM A "REST TRIP" TO NORTHERN PORTUGAL AMID CONTINUING RUMORS OF HIS MENTAL EXHAUSTION AND POSSIBLE RESIGNATION. TENSIONS ARE ABATING IN PORTUGAL, HOWEVER, AND THE MEDIA IS AVOIDING SPECULATION ON TROOP MOVEMENTS OR UNUSUAL EVENTS IN THE COUNTRY. AMONG OTHER FACTORS WHICH HAVE HELPED DIMINISH FRICTIONS WAS THE DEPARTURE TO PARIS AND ALGERIA OF MINISTER WITHOUT PORTFOLIO MELO ANTUNES.

THE WASHINGTON STAR-NEWS:

~~JAMES FOSTER REPORTS THE SOVIET UNION IS FUDGING ON A 1970 UNDERSTANDING WITH THE U.S. TO LIMIT CUBAN-BASED NUCLEAR SUBMARINE ACTIVITY IN THE CARIBBEAN; THE HOUSE INTER-AMERICAN AFFAIRS SUBCOMMITTEE HAS BEEN TOLD. TWO WITNESSES FROM THE BROOKINGS INSTITUTION WARNED THAT CONTINUED LACK OF U.S. PROTEST AMOUNTS TO "ESSENTIALLY AN ENDORSEMENT OF THE BEHAVIOR (THAT) CAN ONLY ENCOURAGE FUTURE ACTIONS BY THE SOVIET UNION OF A SIMILAR NATURE."~~

~~UNESCO CALLED A MEETING TODAY IN PARIS TO VOTE ON NEW ARAB-SPONSORED AYMED AT INCREASING THE INTERNATIONAL ISOLATION OF ISRAEL. UNESCO'S GENERAL CONFERENCE VOTED YESTERDAY TO CUT OFF AID TO ISRAEL FOR ALLEGEDLY DISFIGURING CHRISTIAN AND MOSLEM MONUMENTS IN THE OCCUPIED ARAB SECTIONS OF JERUSALEM.~~

~~LEE COHN REPORTS THAT TIME PRESSURES AND A BATTLE OVER TAX LEGISLATION MAY JEOPARDIZE THE FOREIGN TRADE BILL IN THE SENATE, ACCORDING TO CONGRESSIONAL SOURCES.~~

~~JEREMIAH O'LEARY REPORTS THAT UNDERSECRETARY OF STATE SISCO SPENT A CONSIDERABLE AMOUNT OF TIME YESTERDAY CORRECTING WHAT HE ADMITS WAS AN UNFORTUNATE UTTERANCE ON U.S. POLICY CONCERNING THE PLO.~~

~~ANDREW BOROWIEC REPORTS THE ARAB WORLD EXPECTS AN INCREASE IN PALESTINIAN TERROR ACTIVITIES IN ISRAEL AND CONSEQUENTLY TOUGH ISRAELI REPRISALS AGAINST THE COUNTRIES WHICH HARBOR THE GUERRILLAS.~~

~~OSWALD JOHNSTON WRITES THAT, WITH FITTING SYMMETRY, PRESIDENT FORD'S JAPANESE VISIT IS ENDING ON THE SAME NOTE ON WHICH IT~~

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BEGAN FOUR DAYS AGO -- THE FIRM AND SOLEMN ASSURANCE OF TOP U.S. OFFICIALS THAT IT WAS PRINCIPALLY A SYMBOLIC GESTURE.

A STAR EDITORIAL ASKS WHAT GERALD FORD IS DOING IN THE FAR EAST WHEN SO MANY PROBLEMS AT HOME CRY OUT FOR PRESIDENTIAL ATTENTION. THE ANSWER TO THAT QUESTION, UNFORTUNATELY, IS THAT NOT MUCH IS EXPECTED OF THE PRESIDENT'S FORAY IN THE ORIENT. THE STAR HOPES THAT SOMETHING COMES OF THE TRIP BECAUSE THE PRESIDENTIAL ABSENCE HAS DOMESTIC DRAWBACKS.

CROSSBY NOYES WRITES THAT NO MATTER HOW OFTEN THEY HAPPEN, SUMMIT MEETINGS BETWEEN THE U.S. AND THE SOVIET UNION CONTINUE TO INDUCE EXCESSIVE ANXIETY OR EXPECTATIONS. THE MEETING THATS ABOUT TO TAKE PLACE BETWEEN PRESIDENT FOR AND SOVIET PARTY BREZHNEV AT VLADIVOSTOK IS NO EXCEPTION. UNDER THE CIRCUMSTANCES, HOWEVER, THIS MEETING BETWEEN TOP LEADERS OF THE U.S. AND THE SOVIET UNION HAS LARGER SIGNIFICANCE THAN ANY SINGLE ISSUE BETWEEN THE TWO COUNTRIES. IN FACT, IT MAY TURN OUT THAT VERY LITTLE TIME IS TAKEN UP TALKING ABOUT THE LIMITATION OF STRATEGIC ARMS. FOR THE PEACE OF THE WORLD IS IN PRECARIOUS CONDITION -- PERHAPS MORE PRECARIOUS THAN AT ANY OTHER TIME IN THE LAST 20 YEARS. IT IS POSSIBLE THAT WITHIN A MATTER OF DAYS -- MORE LIKELY WEEKS OR MONTHS -- THE TWO SUPERPOWERS MAY BE CONFRONTED WITH A CRISIS THAT COULD BE THE ULTIMATE TEST OF THEIR NERVE AND WILL. THE GRIM FACT IS THAT BOTH SUPERPOWERS ARE IN A SENSE HOSTAGE TO THEIR RESPECTIVE CLIENTS IN THE MIDDLE EAST: THE U.S. TO ISRAEL, THE SOVIET UNION TO THE ARAB NATIONS. AND THE MIDDLE EAST ONCE AGAIN IS QUITE LITERALLY TEETERING ON THE BRINK OF WAR. CONCERTED ACTION TO PREVENT ANOTHER MIDDLE EAST AT THE FORTHCOMING SUMMIT MEETING AT VLADIVOSTOK. BUT EVEN IF IT IS NOT DIRECTLY DISCUSSED AT VLADIVOSTOK, THE MEETING ALSO WILL HAVE LARGE SIGNIFICANCE IF THE EFFORT TO PREVENT A NEW WAR SHOULD FAIL. IN THAT CASE, THE U.S. AND THE SOVIET UNION WOULD BE IN IMMINENT DANGER OF A DIRECT CONFRONTATION IN THE MIDDLE EAST. IF THAT DIRE EMERGENCY SHOULD ARISE, THE MORE FORD AND BREZHNEV KNOW OF EACH OTHER, THE BETTER OFF WE ALL WILL BE.

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